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INTELLIGENCE MEMORANDUM

CHINESE COMMUNIST AID TO NORTH KOREA  
AND NORTH VIETNAM  
1954-58

CIA/RR IM-423

15 March 1956

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CIA/RR IM-423  
(ORR Project 42.997)

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CHINESE COMMUNIST AID TO NORTH KOREA AND NORTH VIETNAM\*  
1954-58

I. Description of Aid.

The existence of a program of Chinese Communist aid to North Korea and North Vietnam testifies to the determination of the Sino-Soviet Bloc to reinforce its foothold on the Asian continent. Communist China, even in the presence of serious domestic difficulty in meeting the targets of its First Five Year Plan (1953-57), has mounted for these neighbors an aid program of an announced value of US \$650 million over a 5-year period. To carry out this program, between 5 and 10 percent of the total annual exports of Communist China will be aid deliveries that do not provide foreign exchange. North Korea and North Vietnam, nevertheless, are to receive basic industrial products and equipment as well as additional supplies of food and other materials. Small as the industrial portion of the Chinese Communist aid program may be, it will loom large in areas of limited capital development and will constitute an important propaganda medium for the promotion of Communist influence in Asia.

Communist China has announced grants-in-aid to both North Korea and North Vietnam, which may be considered outright gifts inasmuch as repayment has not been mentioned. Although aid to North Korea covers a 4-year period and aid to North Vietnam covers a 5-year period, there appears to be no pro rata use of the funds. North Korea has used about 65 percent of its grant in the first 23 months, and North Vietnam is expected to use most of its grant in the early years of the scheduled period. Both grants were announced in terms of Chinese yuan -- in contrast to the ruble values which are used in other Sino-Soviet Bloc grants to these countries.

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\* The estimates and conclusions contained in this memorandum represent the best judgment of ORR as of 10 January 1956.

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A. To North Korea.

The Chinese Communists announced in 1953 that a grant-in-aid to North Korea of 800 million yuan\* (approximately US \$325 million) would be distributed during the 4-year period from 1954 through 1957. The principal objective of this program is to assist in the rehabilitation of the North Korean economy. 1/\*\*

The total value of Chinese Communist aid extended under the grant during 1954 was announced as 300 million yuan (approximately US \$118 million). 2/ The announced value of such aid for January through November 1955 was 220 million yuan (approximately US \$90 million). 3/

The nature of only a part of the total Chinese Communist aid to North Korea in 1954 is known. North Korea released a list of goods received as aid from Communist China which have an estimated world market value of roughly one-half of the total Chinese Communist aid granted in 1954. The Table\*\*\* presents the known commodities with their estimated value. By value, industrial materials (coal, steel, construction materials, and transport equipment) constituted about 45 percent of known deliveries, and consumer goods (food, clothing, and newsprint), about 55 percent. The largest known items of aid have been transport equipment, grains, and textiles. A comparable commodity list has not been announced for 1955 aid deliveries.

B. To North Vietnam.

The Chinese Communists announced in July 1955 that an 800-million-yuan (approximately US \$325 million) grant-in-aid would be given to North Vietnam for economic reconstruction. 4/ The grant was to cover a 5-year period, but no dates were announced. 5/ It is assumed that the grant became effective after the armistice in Indochina. If this assumption is correct, the effective dates would be from 1955 through 1959.

\* All yuan figures in this memorandum are stated in terms of the new yuan following the currency conversion of March 1955 and are valued in US dollars at the dollar equivalent of the mid-point of the sterling-yuan telegraph transfer rate in Canton, or 2.46 yuan to the US dollar.

\*\* For serially numbered source references, see Appendix B.

\*\*\* The table follows on p. 3.

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Table  
Announced Chinese Communist Aid to North Korea  
with Estimated Value a/  
1954

Commodity	Quantity	Unit	Total Value (Thousand US \$)
Consumer goods			
Grain	130,000	Metric tons	13,000
Soybeans	30,000	Metric tons	3,750
Meat	3,000	Metric tons	3,000
Cotton	3,900	Metric tons	979
Canvas shoes	610,000	Pairs	1,830
Blankets	50,000	Units	250
Newsprint	4,000	Metric tons	400
Cotton fabric	42,000,000	Meters	10,500
Total consumer goods			<u>33,709</u>
Nonconsumer goods			
Coal	650,000	Metric tons	6,500
Coke	36,000	Metric tons	360
Pig iron	22,000	Metric tons	1,540
Finished steel	30,000	Metric tons	3,600
Cement	131,000	Metric tons	2,620
Sheet iron	2,000	Metric tons	200
Locomotives	70	Units	2,100
Freight cars	1,382	Units	8,292
Passenger cars	109	Units	1,090
Motors	265	Units	132
Turbine pumps	420	Units	118
Lumber	42,700	Metric tons	427
Total nonconsumer goods			<u>26,979</u>
Grand total			<u><u>60,688</u></u>

a. The quantities of these goods were announced by North Korea. The values have been estimated on the basis of world prices adjusted by knowledge of Sino-Soviet Bloc prices. See source 6/ for prices per unit.

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The announced purpose of the grant was to help in the reconstruction of the North Vietnam transport facilities; to help rebuild some factories, mainly light industrial establishments; and to cover the costs of students studying in Communist China. 7/ The July announcement is thought to be an elaboration of the technical assistance agreement signed in December 1954, 8/ which was limited to projects involving communications and water conservation.

Because information that is currently available is so fragmentary, it is impossible to make a compilation of the amount or types of aid that Communist China is sending to North Vietnam. It is assumed that some construction materials and railroad equipment were sent, because some of the railroad projects have been recently announced as completed. 9/ It is expected that some consumer goods will be sent to alleviate the current food shortage as well as to improve the general living conditions in North Vietnam in time for the possible elections in 1956.

## II. Economic Cost to Communist China.

The economic cost to Communist China of the aid program to North Korea and North Vietnam is relatively small when measured against gross national product (GNP). In fact, the average annual value of the aid amounts to significantly less than 1 percent of GNP in any 1 year. This relatively small fraction of total output which is diverted into aid comes, however, during a period when Communist China is importing large amounts of capital equipment and is having difficulty providing exports to pay for them. A better measure, therefore, of the economic impact of this aid program on Communist China is the foreign exchange value of the aid goods which would have accrued to Communist China had the goods been traded in regular markets.

Chinese Communist aid to North Korea in 1954 was announced as US \$118 million. A list of commodities and quantities was also released. Most of the commodities could be valued in terms of world market prices, and these are shown in the Table.\* The estimated value of these commodities in world prices is US \$60 million, roughly one-half of the total of announced aid for the year. The gap between total aid and the estimated value of the commodities has several possible explanations.

\* P. 3, above.

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It is probable that the lists of delivered materials were not complete. It is also possible that the Chinese Communist prices for the materials were inflated to maximize the amount of aid. When the Chinese Communist troops (Chinese People's Volunteers -- CPV) were withdrawn from North Korea in 1954, it is possible that military equipment was given to the Koreans and its value included in the aid program. It is also possible (but not probable, because of the wording of the announcements) that the services performed by the Chinese Communist technicians and the CPV for several projects could have been included in the total value of the aid.

An analysis of the announced commodities which Communist China shipped to North Korea during 1954 indicates that at least US \$50 million worth of the commodities\* represented a possible sacrifice of foreign exchange by Communist China. The commodities are largely products which Communist China could have exported to earn foreign exchange or could have substituted for imports by a similar amount to save foreign exchange.

The commodities in the Table\*\* also could have been used in Communist China since most of them appear to be in short supply. The Chinese Communist supply of railroad rolling stock, for example, is thought to be barely sufficient for internal requirements. For Communist China to send rolling stock as aid from its freight and locomotive park represents a sacrifice unless the rolling stock is obsolete equipment, small equipment for mining use, or equipment left in North Korea from the military operations. Cotton and cotton goods sent as aid also represent a sacrifice; Chinese Communist textile mills have been operating at less than full capacity because of the lack of cotton. Coal is the only aid commodity which Communist China appears to have in adequate supply.

Had Communist China decided to employ these commodities (having a potential value of US \$50 million) in foreign exchange, they would have paid for approximately 10 percent of Communist China's total capital goods imports in 1954.\*\*\* In terms of equipment for industrialization, the foreign trade value of the commodities is equivalent to more than one-half of the estimated cost of the equipment (most of which had to be

\* The estimate was derived by comparing the commodities with Chinese Communist imports and exports in 1954 and making allowances for the availability of markets.

\*\* P. 3, above.

\*\*\* Communist China's capital goods imports are thought to have been about US \$550 million to \$650 million. 10/

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imported) that was required by Communist China to accomplish the increase in crude steel capacity during the first 2 years of the First Five Year Plan.\*

Because it is possible to account for only part of the Chinese Communist aid to North Korea in 1954, the US \$50 million cost to Communist China should be considered a minimum. The cost to Communist China of economic aid will be higher in 1955 because aid will go to North Vietnam as well as to North Korea.

\* The calculation is based upon a cost of US \$544 million per million metric tons of crude steel capacity, 11/ with 40 percent of the cost being for machinery and equipment, 12/ applied to the 427,000 metric tons of increased capacity estimated for 1953 and 1954. 13/

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APPENDIX A

GAPS IN INTELLIGENCE

The most significant gap in intelligence on Chinese Communist aid to North Korea has to do with the nature of the unknown portion of aid provided in 1954. Another significant gap is the value and composition of 1955 aid.

The major gap in intelligence on Chinese Communist aid to North Vietnam concerns the composition, value, and beginning date of aid deliveries.

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APPENDIX B

SOURCE REFERENCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

"Documentary" refers to original documents of foreign governments and organizations; copies or translations of such documents by a staff officer; or information extracted from such documents by a staff officer, all of which may carry the field evaluation "Documentary."

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this memorandum. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

- FOIAb3b1
1. CIA. CIA/RR PR-128, North Korean Foreign Trade, 21 Dec 55. S.
  2. Ibid.
  3. [REDACTED]
  4. Ibid., no 134, 12 Jul 55, p. A 14. OFF USE. Eval. RR 2.
  5. Ibid., no 146, 28 Jul 55, p. C 2. OFF USE. Eval. RR 2.

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6. CIA. CIA/RR PR-128 (1, above).

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7.

8. Ibid., no 251, 29 Dec 54, p. A 17. OFF USE. Eval. RR 2.

9. Ibid., no 32, 15 Feb 55. OFF USE. Eval. RR 2.

Ibid., no 10, 14 Jan 55. OFF USE. Eval. RR 2.

10. CIA. EIC R1-S4, Communist China's Imports and Exports, 1954:  
Trade and Transport Involved, Dec 55. S.

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11.

12. Ibid., no 151, 4 Aug 55, p. A 49. OFF USE. Eval. RR 3.

13. Ibid., Supplement, 4 Jul 55, p. 81. OFF USE. Eval. RR 2.

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